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Shawnee Fossil Plant Manager Jeff Parsley (left) talks with President Tom Kilgore during Kilgore's visit to the plant in July.

Fellow TVA employees,

I have met with many employees and TVA stakeholders since I have been with TVA. I was attracted to this company because my philosophy is consistent with the values of TVA and its employees.

As I have said to many of you, my early observations are that TVA is good, but not great, but good enough to be great. And to survive in a highly competitive market, we need to be great.

In a recent meeting with TVA's leadership team, I shared some things that are now being shared with you in this edition of *Inside TVA*. These include some of my personal management philosophies, key areas we need to focus on to help ensure our successful future and the initiatives for the next six months.

In focusing on the five key areas, excellence in performance is critical. In addition, the examples provided by top management will set the tone for all of TVA.

I believe TVA has been on the right path with such initiatives as STAR 7, 360-Degree Feedback, the Cultural Health Index and Winning Performance. The Strategic Talent Management process now under way is another positive step in helping assure great, diverse leaders for the company.

I am confident that, working together, we will make TVA not only a great company to work for, but also a great company to be served by.

Through my continued meetings with you and through your Cultural Health Index survey feedback, I welcome the opportunity to learn what's on your mind and how we can better work together to become great.

— Tom Kilgore

what's new in employee news

TVARS election **Aug. 12-26**

Seven employees are running for the TVA Retirement System Board term that will begin Nov. 1. The term will run through Oct. 31, 2008. Candidates are Kerry Bracey, Jacqueline Broder, Robert "Eddie" DeBusk II, Glenn Henry, Ron Hutson, Terrill "Sparky" Snodgrass and Gretchen Thal.

Retirement Services will mail election ballots and candidate information to TVARS members Aug. 11.

To vote, members can call the Election Line, which will be open 24 hours a day Aug. 12-26. An Election Help Line (865-632-6357) and a TTY Election Line (865-632-7576) will be available from 8 a.m.-4:45 p.m. EDT during the election period.

For information on the candidates, see "Candidates announced for TVARS Board election" on the online *Inside TVA*, accessible from TVA's internal Web site News page.

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and affirmative-action employer.*

*TVA also ensures that the
benefits of programs receiving
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disability or age.*

*Inside TVA will be made
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For information, call
865-632-4676
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page — www.tva.com.*

Tom Kilgore's philosophy

Tom Kilgore "walks his talk" when it comes to his business philosophy. And this philosophy aligns with TVA's Values of Integrity, Respect, Accountability, Teamwork, Continuous improvement, Honest communications and Flexibility.

The following is his personal philosophy:

Be competent, collaborative, passionate.

Success requires not only that every employee be competent, but that they work together to assure greatness.

Teamwork has been a value at TVA for a long time. And we must collaborate even more to achieve the best results and to build credibility, internally and externally. We must continue to raise the bar of excellence in all we do, constantly challenging everyone to achieve great things.

And we must be passionate about our work, enjoying going to work day after day. I believe we can be technically very good, but unless we are passionate about the work we do, we won't do a very good job.

Be responsible, helpful, accountable. Being responsible, helpful and accountable are necessary for the successful performance of any company.

TVA has been holding management and employees to the "accountability" standard. Being accountable means taking responsibility for all our decisions. It means more than just paying our debts. And with everything we do, we must ask ourselves, "Am I being helpful to everyone I should be helping?" That covers just about all of our values.

Be frugal in a smart way. Being frugal doesn't mean not spending money when it's necessary to spend it. It means being accountable and responsible for what we spend. For example, we are selling and terminating leases on buildings we no longer need. So far, TVA has reduced office space by about 521,000 square feet, saving us more than \$26.4 million. That's a great example of being frugal in a smart way.

Obey the rules — or work to change them.

Some rules need to be changed, because some are not fair or correct. But if it's a matter of complying with environmental regulations or paying your own speeding tickets, we will follow the rules. That demonstrates the values of "Integrity" and "Respect."

Communicate thoroughly and intelligently. I whole-heartedly believe in TVA's Value of "Honest communication." When you communicate with me, I will do "listening checks." I will ask you, "Did you understand what I said?" With me, you can't just say, "yes." I want you to say, "Here's what I understood you said. Is that correct?" In other words, I want you to play it back to me to see if we have the same understanding.

Learn and improve constantly; investigate problems thoroughly. I want all of us at TVA to follow the value of "Continuous improvement." Everyone in this company should learn something every day. TVA and the electric-utility industry are changing rapidly. And everyone needs to keep up with the changes. Some people like change better than others, but change is a way of life and nothing to be feared. Investigating our problems will prevent repeating them, which is very costly to everyone.

Set high goals and standards. We can only continuously improve by setting high goals and standards for ourselves and for those around us. Change is the only way we are going to get from where we are to where we want to be. Goals begin with our behaviors, so I expect everyone to set high goals and standards. That will get us beyond now and to greatness.

Bill Swann (left), General Manager of Morristown Utility Commission, and Tom Kilgore get together at the recent Tennessee Municipal Electric Power Association meeting. Kilgore, a principle speaker at the meeting, has identified reformed relationships with power customers as one of the five keys to the future. TMEPA incorporates 59 municipal electric-power providers, serving more than 70 percent of Tennessee's electric consumers.



Tom Kilgore defines TVA's five keys to the future

TVA's five keys to the future, as outlined by Tom Kilgore, closely relate to TVA's Winning Performance measures. "TVA's success will be evaluated by our financial, customer, operations and people accomplishments," he says. "The five keys to the future are solid measures we must achieve to compete in the competitive marketplace."

- **Operational excellence** — Operational excellence has to be our first priority. If we don't deliver our product to customers efficiently and reliably, we fail. All employees at TVA can contribute to operational excellence.
- **Debt repayment** — We have to learn to live within our means and change the way we look at budgeting. We have to determine if our spending on certain things is necessary. We need to be frugal in a smart way to ensure that we are getting the right value for all the things we spend TVA money on.
- **Reformed relationships** — Reforming relationships with our power customers is extremely important. I am 100-percent optimistic we'll get there, but it will take time and won't be without some compromises. Overall, we need to treat our customers with respect, and I believe they will return that respect to us.
- **Valley stewardship** — We have to approach environmental issues in the Tennessee Valley as if we live next door, because we do. We have to be good neighbors, not just with the environment, but also with economic development.
- **Leadership at the top** — Top management at any company sets the tone for the rest of the organization. At TVA, we will start at the top and set the example by living the TVA Values.

Focus for the next six months

President & Chief Operating Officer Tom Kilgore has outlined key initiatives TVA needs to make measurable progress on in the next six months. Following are brief descriptions of each:

1. Strong summer reliability — We need to get through the summer with no unexpected events that would cause us to not be able to meet our customers' needs. And for us to be successful, our planning, transmission, generating and power-trading groups will need to be on top of their game.

2. Cultural Health Index survey — The Cultural Health Index survey has just concluded. We need to understand how employees feel their work links to business goals, work-group functioning and capabilities, as well as other work factors affecting employee engagement. We'll use the results to develop and carry out action plans that will ensure FY '06 business performance and improve work environments.

3. Manage TVA's part of transition to a new Board — Chairman Bill Baxter and Director Skila Harris will continue to direct TVA until new Board members have been named. We will assist the new Board when it's appointed. A Board-orientation plan and draft governance documents — bylaws, governance guidelines, committee charters — have been prepared for the new Board to consider.

4. Fiscal year 2006 Winning Performance measures — The fiscal year 2006 Winning

Performance measures are currently being revised. A lot of people will work on this, but I will put my name on it, too. I want to make sure we're setting our goals high enough so we're getting what we're paying for.

5. Sarbanes-Oxley readiness — The Sarbanes-Oxley Act requires us to assess internal controls, which assure that we achieve our objectives in operational effectiveness and efficiency, reliability of financial reporting, and compliance with applicable laws and regulations. This is no small feat. It forces us to get our controls in place and document them in our procedures. We don't have an option, but that's not bad. We will go at it with a positive attitude.

6. Industrial rate portfolio — We're in the process of developing new, more highly differentiated prices, services and contract terms for our industrial customers. We're not as far along on this, but it has to get our top attention.

7. Long-term contract negotiations — We are in the process of developing long-term contracts that will enable us to achieve our business and financial goals. The negotiations with customers have gone well, but we have much work left to do. There are still some major issues to be resolved.

8. Environmental compliance construction plan — We are gathering and analyzing

Continued on next page

TVA Leadership Competencies

“A good leader knows where he or she is going and is able to persuade other people to follow.” — Tom Kilgore

No matter what the job is at TVA — whether it's a manager or specialist, trades & labor or support-staff position — everyone can take a leadership role.

TVA's seven new Leadership Competencies provide the foundation for talent development at TVA. And they can be a guide for all employees as they consider leadership-development opportunities.

The Leadership Competencies will be integrated into the Performance Review &

Development process for Manager & Specialist employees, as well as into the revised 360-Degree Feedback process.

“Developing leadership at the top is one of our five keys to the future,” says President Tom Kilgore. “That’s why it’s essential to increase developmental opportunities for our current and future leaders. That might mean additional training, a rotational assignment or participation in a leadership-development program.

“In the next few years, we know we will have key leadership positions to fill, and we’d like to fill those from within if the right talent and skills are available. Developing great, diverse leaders will help TVA achieve a competitive advantage and improve the performance throughout the company, which will benefit everyone.”

TVA Values

- Integrity
- Respect
- Accountability
- Teamwork
- Continuous improvement
- Honest communications
- Flexibility

Focus

continued from previous page

all the information now and will present a recommendation on what is best to take the effluents out of the air - whether it's switching fuels, installing emissions controls or mothballing. It is important to get it right and be fair.

9. Five-year financial plan — This fall we will need to go back to the Office of Management & Budget to commit to what our plan will be for debt reduction and our total financing obligations for the next five years. At TVA, we have to be committed to executing our plan.

10. Meet or exceed earned value targets for Browns Ferry Unit 1 recovery — We need to meet or exceed our targets for Browns Ferry Unit 1 restart work. Completing this project will reduce our dependency on fossil fuels, which have gone up 40 percent in the past few years, and lower our air-quality emissions. Everyone in the industry is watching us, and our reputations are at stake here. That is why we need to do this and do it well.

11. Strategic Talent Management — We need to make sure we maintain adequate leadership bench strength. The Strategic Talent Management process will promote learning and development for leadership candidates.

12. Resource Recovery Plan for Bellefonte and Watts Bar Unit 2 — We will look at Bellefonte and Watts Bar 2 and figure out a resource-recovery plan. Nuclear is back in favor, along with other clean-coal options, and we have two sites. Let's see what we can do with these sites. We'll look at a lot of options, including joining with partners.

Qualities of good leaders in each Leadership Competency category

| | | |
|--|---|--|
| 1. Leadership <ul style="list-style-type: none">• Possess high standards and expectations and hold themselves and others accountable for superior performance• Appreciate and value differences and promote diversity in its multitude of forms• Understand and create the conditions that promote employee engagement• Provide clear and honest feedback to employees about their performance | 3. Change Orientation <ul style="list-style-type: none">• Anticipate change and plan for it so they can take a proactive stance• Recognize change efforts that are being led by others and are supportive and collaborative• Model the designed new behaviors when the organization's culture needs to be changed. | <ul style="list-style-type: none">• Focus on performance and results• Set high standards of quality |
| 2. Business Orientation <ul style="list-style-type: none">• Demonstrate a business perspective that is much broader than their function or unit• Recognize that collaboration with other departments, sections and units is essential to overall success• Take responsibility and exercise leadership in developing business plans that are clearly aligned with the organization's vision | 4. Problem-Solving and Thinking <ul style="list-style-type: none">• Possess a high level of intellectual ability• Know and use diverse problem-solving approaches, including objective analysis as well as the use of intuition• Take a comprehensive approach to problem-solving and gather information from multiple sources before making decisions | 6. Interpersonal Relations and Communication Style <ul style="list-style-type: none">• Understand the importance of developing and maintaining positive relationships and value collaboration and teamwork• Build business relationships across the organization• Communicate intelligently with appropriate levels of directness and honesty and communicate equally as well with direct reports and supervisors |
| | 5. Emotion and Motivation <ul style="list-style-type: none">• Demonstrate emotional stability and maturity | 7. Understanding of Self and Others <ul style="list-style-type: none">• Understand their strengths and development opportunities• Recognize their impact on others and actively encourage feedback from others• Accurately assess the strengths and developmental opportunities of others and give feedback effectively |

Framework for Organization Capital

Mobilizing and sustaining the process of change required for a company to successfully implement its business strategy is the definition for “Organization Capital.”
TVA’s Framework for Organization Capital will touch every employee throughout the year.

TVA's Framework for Organization Capital incorporates the six initiatives that impact TVA employees, culture and performance.

These initiatives include Strategic Talent Management, STAR 7, 360-Degree Feedback

Process, Cultural Health Index, Integrated Performance Management and Winning Performance.

Integrating the initiatives will help TVA leverage the many ways these programs touch each other, says Mike Purcell, executive sponsor for the Framework project.

“This is beyond just integration,” he says. “These efforts now have stronger accountabilities, actions and measurements.”

More specific information will be shared with employees as appropriate through the Strategic Business Units.

General activity on the Framework initiatives includes the following:

Strategic Talent Management — Based on the new Leadership Competencies, this comprehensive process goes beyond traditional succession planning and is helping TVA identify future leaders by creating an inventory of the current leadership talent within the company. These Leadership Competencies will then be used to focus future leadership-development opportunities for M&S employees.

Strategic Teamwork for Action & Results, or STAR 7 — STAR 7 continues to be the model for preparing TVA's workforce for the kind of culture and level of performance required to advance from a good organization to a great one. A team is currently reviewing this content and developing fresh, concise messages that reinforce and boldly communicate our mission and values. We can expect to hear and see more about the updated and refreshed STAR 7 in the coming months.

360-Degree Feedback — A more robust 360-Degree Feedback process will provide leaders with actionable data that can be used to sustain or improve positive, productive work environments. Again, the new Leadership Competen-

cies are central to this assessment and feedback process.

Cultural Health Index, or CHI — Only about 30 questions were used in the 2005 survey, but they all matter. In a letter encouraging employees to complete their survey, Kilgore wrote, “My commitment to each of you is that I will not only read your comments, but I will take appropriate action based on what I find to be the most critical issues.” The CHI process will include periodic polling of employees beginning this fall.

Integrated Performance Management — Integrated Performance Management, or IPM, combines the performance management processes in TVA that support the Winning Performance process. These processes include performance reviews, individual development planning and 360-Degree Feedback. The goal is to ensure that all components of the IPM processes are consistent with the other elements of the framework, in both expectations and language. M&S employees impacted by these processes can expect to see changes in the new fiscal year. Supervisors will provide more detail when available.

A winning team at its best

The phone message says, “You have reached the AFBC 160 maintenance shop, home of the best maintenance crew in the Valley. We are currently busy providing Tennessee Valley Authority customers with electricity. ...”
Now that’s ATTITUDE. And that’s typical at Shawnee Fossil Plant.

Steve Carter is proud to be part of the Shawnee Fossil Plant family. “It’s like a family atmosphere here,” says Carter, Fossil Mechanical Technician III with the Unit 10 Atmospheric Fluidized Bed Combustion group. “Everybody is here to do a job, and we all take pride in our jobs.”

Carter, who has been at the plant six years, says part of that pride comes from the sense of appreciation from others at the plant.

“My foreman, Ronnie Faith, came up with the idea for the phone message,” he says. “That kind of attitude is all over the plant. For example, it’s not unusual for our plant manager, Jeff Parsley, to come through our shop to discuss what’s going on. And I’m quite comfortable going into his office to talk to him.”

“If we have worked a long shift, Jeff will come around and say, ‘I appreciate the time you spent here away from your family.’ And all the unit operators are good at saying, ‘You did a good job, and we appreciate what you did.’”

Parsley says he considers himself “just another employee.” He believes in the TVA Values and tries hard to set the right example for the culture.

“I want everybody at this plant to know he or she is just as important as the next person,” Parsley says. “And I want everyone to recognize that we are a family, and we are proud of our plant.”

Taking pride in what they do is one of the reasons for Shawnee’s exceptional performance this year. To date, all the goals of the Winning Performance indicators are being met. And in 2003, Shawnee had exceptional Cultural Health Index results.

“Performance improves when employees see that things get fixed,” Parsley says. “That perpetuates winning performance, which improves attitudes.”

Parsley has been at Shawnee 25 years and is familiar with every department.

“The management team observes what goes on out in the plant every day and continuously sets expectations and models safety rules,” he says. “We make a point to recognize employees and teams when they do a good job.”

Unit 2 Operator Jeff Cunningham is a relative newcomer to TVA, but he says he immediately picked up on the positive attitudes.

“We have personal pride in what we do and want to do a good job,” says Cunningham, who has worked at the plant four years. “The management team members work with us. They ask us how we’re doing and if we need anything. That makes a big difference in how we feel about coming to work.”

He says the other four Unit 2 operators are proud of the continuous-run record in progress.

“If we have a problem or piece of equipment that needs maintenance, we write it up and get it checked. The management team has a lot of experience doing different jobs. It’s something to brag about.” — NANCY CANN



From left, Fossil Mechanical Technicians III Shonda Lappin and Tony Mangina, Plant Manager Jeff Parsley and Fossil Mechanical Technician III Steve Carter in the AFBC maintenance shop

Winning Performance

TVA’s Six Strategic Objectives

| TVA's Six Strategic Objectives | | | | | | | | | |
|---|----------------------------|-------------------------|---------------------------|--|-----------------------|-------------------|----------|-------|---------|
| River and the environment | Affordable, reliable power | Sustainable development | Continuing debt reduction | Reducing TVA's delivered cost of power | Stakeholder relations | | | | |
| TVA Balanced Scorecard for June 2005 | | | | | | | | | |
| | | Weight | Status | Actual YTD | Plan YTD | Year-End Forecast | GOALS | | |
| Financial | | | | | | | Target** | Mid | Stretch |
| • O&M Costs (\$ millions) | | 15% | | 2,610 | 2,681 | 3,532 | 3,584 | 3,548 | 3,477 |
| • Financial Strength (\$ millions) | | 15% | | 177 | 161 | 280 | 225 | 300 | 440 |
| • Productivity (kWh/(\$)) | | 10% | | 157.7 | 147.7 | 153.7 | 153.7 | 156.9 | 158.5 |
| Customer | | | | | | | | | |
| • Customer Satisfaction (%) | | 10% | | 101.4 | 100.0 | 101.0 | 100.0 | 103.0 | 107.0 |
| • Economic Development (index) | | 10% | | 117 | 100 | 100 | 100 | 110 | 120 |
| Operations | | | | | | | | | |
| • Asset Availability (%) | | 20% | | 103 | 98 | 100 | 98 | 100 | 102 |
| • Environmental Impact (index) | | 10% | | 57 | 79 | 68 | 78 | 73 | 68 |
| People | | | | | | | | | |
| • Safe Workplace** (all injuries/hour worked) | | 10% | | 1.68 | 2.12 | 2.12 | 2.12 | 2.12 | 2.06 |
| Notes: | | | | Status: | | | | | |
| * Target equals FY04 Performance Plan Target. | | | | = Forecast at or better than Target | | | | | |
| ** Payout at any performance level is contingent upon no fatalities. | | | | = Forecast worse than Target, but recovery is possible | | | | | |
| | | | | ⬇ = Forecast worse than Target, and recovery is unlikely | | | | | |
| This scorecard has been posted on the Winning Performance section of TVA's internal Web site. | | | | | | | | | |

Safety first in every office

Looking in a cubicle? Brewing coffee on a desk? Using a heater to warm those feet?

“Before any appliance is used, employees should contact Facilities Management to make sure safety codes and TVA guidelines are met and the item is set up in a safe place,” says Steve Brothers, co-manager of Corporate Compliance in FM.

“We want to make sure the appliances do not create safety risks, increase TVA’s energy use or overload existing circuits.”

“Office Keeping Guidelines,” which includes information on using appliances in offices, can be found on TVA’s internal Web site using the “Search” function.

Before plugging in, FM considers the following to

help keep employees safe:

- Placement of the appliance and proximity to combustible materials
- Safety features such as automatic shut-off when tipped, overturned or moved
- Requirements for cleaning and maintaining the appliance and the surrounding area
- Appliance and extension cords UL listed and can carry the load
- Energy use of appliance and effect of load on meeting federally mandated energy-use reduction goals.

For more information, call 2700 at each employee’s location.

— NANCY CANN



Don’t do this, please. Here is an example of an unsafe appliance in an office.